



INFORMATION TECHNOLOGY INDUSTRY COUNCIL

June 29, 1995

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
Room 222
1919 M Street, N.W.
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

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Re: CC Docket No. 95-72 -- Comments of the Information Technology
Industry Council

Dear Mr. Caton:

I am enclosing an original and nine copies of comments by the Information
Technology Industry Council (ITI) in response to CC Docket No. 95-72.

Sincerely,

Fiona J. Branton
Director, Government Relations and
Regulatory Counsel
Information Technology Industry Council

Enclosures

cc: Peggy Reitzel, Policy and Program Planning Division,
Common Carrier Bureau

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The association of leading IT companies

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of)

End User Common Line)
Charges)
_____)

CC Docket No. 95-72

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COMMENTS OF
THE INFORMATION TECHNOLOGY INDUSTRY COUNCIL

Rhett Dawson
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June 29, 1995

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The Information Technology Industry Council (ITI) hereby files these comments in response to the Notice of Proposed Rulemaking (NPRM) in the above-captioned proceeding.¹

I. Introduction And Summary

ITI welcomes the Commission's issuance of the NPRM, and the accompanying opportunity to address the FCC on the issue of the applicability of the subscriber line charge (SLC) to multi-channel ISDN services. The FCC's considered approach reflected in the NPRM recognizes the complex and important issues raised by the application of yesterday's rules -- designed for a universal world of POTS ("Plain Old Telephone Service") -- to today's emerging technologies. To that end, ITI applauds the FCC for recognizing that public policies and charges designed for the POTS world should not always be automatically applied to the world of promising new telecommunications technologies. ITI submits that:

- Analog, low-speed, low-bandwidth POTS today presents a bottleneck for personal computer (PC)-based communications.
- ISDN is a key digital telecommunications technology that promises to provide the affordable, ubiquitous higher bandwidth needed for PC-based communications, now and for the near term. The FCC should encourage the use and further deployment of ISDN services.

¹ ITI, formerly known as the Computer and Business Equipment Manufacturers Association (CBEMA), is a leading trade association of manufacturers and vendors of computers, computing devices, office equipment, and information services.

- ISDN and PC-based communications will be complementary to POTS, and will rapidly add to use of the public switched telephone network (PSTN) -- thus increasing revenues for any necessary support flows required to recover the nontraffic sensitive (NTS) costs of the local loop. Lowering total ISDN prices, or at least not raising them, as was initially done by the FCC,² is necessary not to discourage the deployment of new technologies such as ISDN.
- As with other communications services, such as cellular and cable, demand for ISDN is highly elastic. If the total ISDN monthly charges drop to the \$20 per month price range, demand for ISDN will certainly increase dramatically, with commensurate increases in use of the PSTN.
- ISDN tariffs in many states are already substantially above costs. For the FCC to encumber ISDN with additional non-cost-based charges would: (i) penalize technological advances; (ii) deter development of more powerful on-ramps to the National Information Infrastructure (NII); and (iii) send exactly the wrong signal to state regulators.
- The Commission should impose a single SLC for each local loop used. If the Commission believes that it must generate additional SLC revenue, ITI would not object to assessing one SLC for each copper pair used to provide ISDN access -- that is, one SLC for basic rate ISDN and two SLCs for primary rate ISDN. This approach is rationally related to the underlying NTS costs (and in fact, likely over-recovers those costs), simple to administer, and consistent with the Commission's statutory obligation to promote deployment of advanced technologies.

² NYNEX Telephone Companies Revisions to Tariff F.C.C. No. 1, 10 FCC Rcd 2247 (1995).

II. The Public Has A Vital Interest In Cost- Based Charges For ISDN Services

The phenomenal growth in computing power at affordable prices, together with the convergence of computing and telecommunications technologies, presents a unique opportunity for significant near-term improvements in economic efficiency, productivity, and quality of life for the public. While POTS has served the country well and will continue to be a critical service for voice telephony, it is not suitable for the significant high-speed data communications needed to support advanced information technology applications.³

As the Commission is aware, ISDN today represents only one of the technical improvements in telecommunications bandwidth to be made available to the public; there are other technologies waiting in the wings to be refined and gradually deployed over the coming decades. However, the FCC should recognize that ISDN has the potential of becoming to PC-based multimedia communications what POTS has been for many decades to telephone-based voice communications. The FCC should do everything it can to accelerate the deployment of more telecommunications bandwidth at affordable prices to ensure that the public benefits from this new technology. This proceeding allows the FCC the opportunity to address the important public policy issues presented by new technologies that allows customers to derive multiple channels from existing phone lines.

³ The challenge remains for federal and state regulators and the local exchange carriers themselves to increase the bandwidth available at the same prices over time and to aim to emulate the computer industry, which has consistently delivered vast price-performance improvements within short periods of time. Just as the PC industry each year, at virtually constant prices, makes great strides in the computing power (as indicated by improvements in such measurements as the millions of instructions per second (or "MIPS") that are executed by a PC's microprocessor), the telecommunications industry faces the challenge of providing greater and faster transmissions as measured by the delivery of data in megabits per second in similar time periods at constant prices for the promise of multimedia PC communications to be fully realized.

III. ISDN Allows More Efficient Use of the Existing Local Loop

ISDN is an important -- and immediately available -- way to bring ubiquitous, affordable, interactive digital communications services to consumers. ISDN provides consumers in their home and commercial users in their businesses with high-speed, high quality access to a multitude of data services and to the Internet, and through PC communications, to a wide range of other multimedia, voice and data features. ISDN has demonstrated its ability to play an increasingly important role in telemedicine, long-distance education, and telecommuting, among other public service uses. As the Administration has observed: "ISDN is an important low-cost, near-term technology for the Information Superhighway. Consumers, businesses and educators are using this service for high-speed Internet access, telecommuting, video conferencing, and PC based collaboration. A significant increase in the cost of ISDN could severely reduce demand just as the market for this service is poised to take off."⁴

ISDN derives multiple channels from an existing single local loop. No re-wiring of the local loop is required; ISDN is, in essence, the cost-effective replacement of analog switches with digital switching capability. As stated by Pacific Bell in its "Petition for Waiver," "ISDN does not change the characteristics of a local loop... It is a switch feature used in conjunction with local exchange services such as a measured business line, or fixed residential line. ISDN allows that local exchange line to be used more dynamically and efficiently, but does not change the fact that a single local loop is in use. Multiple SLCs in this situation is not consistent with the technology. We do not charge additional SLCs based upon the enabling of switch features."⁵

⁴ Letter from Larry Irving, Assistant Secretary of Commerce for Communications and Information, to Reed Hundt, Chairman, FCC (March 17, 1995) at 2.

⁵ Pacific Bell, "Petition for Waiver," Feb. 21, 1995 at 1.

For PC users, ISDN will very shortly become as basic a need as POTS is for voice communications. Affordable ISDN is essential for PC users to make full use of their investments. As the Commission states in Paragraph 17 of the NPRM, "We must be careful to avoid erecting regulatory barriers to the development of beneficial new technologies. This is particularly important when these services and technologies can facilitate access to the benefits of the National Information Infrastructure."⁶ ITI agrees. ISDN significantly expands the bandwidth and potential uses of the existing telephone infrastructure in a very cost-effective manner. Because ISDN holds the potential of becoming immediately and ubiquitously deployed at a real cost no greater than POTS, the FCC should encourage, not retard, its deployment.

IV. Any State Or Federal Regulation Increasing ISDN Rates Is A Move In The Wrong Direction

ISDN is at present mainly a niche business and is priced as such. The higher the tariff, the greater the deterrent (especially for nonbusinesses) to use of ISDN. We believe that demand is highly elastic and that demand for ISDN will proliferate at \$20 per month. Today's average cost per month of \$50 is too high for many residential users and small businesses. The cable, fax and modem industry experiences demonstrate that \$20-30 per month is a key price point for mass consumer acceptance.

At \$50 per month, ISDN is almost 5% of the cost of a \$1000 (low end) computer. Regulators should send a strong message to urge reduction of ISDN tariffs, not load them with excessive subsidy obligations, especially when the business is in a nascent, take-off stage, already facing above-cost tariffs. Application by the FCC of multiple SLCs will compound the deterrent already imposed by high prices, and will send the wrong signal to LECs and state regulators.

⁶ FCC NPRM at 9.

The Commission has long recognized that if high volume users of the network are required to pay charges that are substantially greater than the cost of the local loop facilities they use, they will have a strong incentive to divert traffic to other transport facilities, even when the LEC would be the most efficient provider.⁷ The Commission has therefore required that a significant portion of the non-traffic sensitive (NTS) costs of the local loop should be recovered through cost-based, non-usage sensitive subscriber line charges.

Requiring ISDN users to pay 24 SLCs for the use of one local loop would be inconsistent with this fundamental Commission policy. In effect, high-volume users would be required to pay charges that far exceed the cost of the local loop facilities they use -- the very practice the SLC was supposed to counter. Consistent with long-standing policy, the Commission should impose a single subscriber line charge for each local loop used. This will create the incentive for users to employ LEC-provided local loops in the most efficient manner possible.⁸

⁷ See Notice Paras. 18-20. "Access pricing that does not reflect cost," the Commission has specifically noted, "can turn computer technologies from direction that would enhance the productivity of this essential U.S. industry...towards simple avoidance of non-cost-based communications prices." MTS & WATS Market Structure, Third Report and Order, 93 F.C.C.2d, 241, 251-52, on recon., 48 Fed. Reg. 42984 (1983), on further recon., 49 Fed. Reg. 7810, affirmed in relevant part, National Ass'n of Regulatory Util. Commr's v. FCC, 737 F.2d 1095 (D.C. Cir. 1984).

⁸ The Commission's suggestion, see Notice, Para. 26, that application of a per-facility SLC may be inequitable because it would also allow large business customers to pay less "per channel" than residential customers is unfounded. The touchstone of just and reasonable rates is whether they are related to costs. The cost of the local loop is the same regardless of the number of channels derived from it. The equitable approach is to charge each customer the same price for the same facility.

V. Applying One SLC for Each Copper Pair
of an ISDN Service is a Viable
Compromise Solution at This Time

ITI understands the challenge to the FCC to apply the SLC to ISDN in a manner that does not unduly burden newer technologies, and that also does not unduly compromise other important policy goals of recovering the NTS costs of the local loop and preventing increases in CCL rates. ITI recognizes that the Commission is concerned that under-recovery of total SLC revenues could lead to higher access charges paid by long distance carriers (and thus long distance users).

We are convinced, however, that ISDN is such a compelling technology that, in a very short time, PC-based ISDN communications will add significant new connections and produce enormous volumes of telecommunications traffic to the PSTN. A significant portion of the ISDN-based traffic, at least initially, will be generated by large business users. These users, in turn, will be required to pay (through their toll payments to the interexchange carriers) an increasing percentage of the common carrier line charge. As a result, there is little basis for concern that eliminating the above-cost multiple subscriber line charges for ISDN users will result in higher toll charges for residential customers. ITI therefore urges the Commission to take into consideration the tremendous potential for increased telecommunications traffic and use of the PSTN that is inherent in PC-based communications as it considers the appropriate application of the SLC to ISDN services.

If the Commission is unwilling to charge SLCs on a per-facility basis, then ITI recommends that the Commission assess one SLC per copper pair used to provide ISDN access -- that is, one SLC for basic rate ISDN and two SLCs for primary rate ISDN. Telephone companies do not incur additional common line-attributed costs in providing basic rate ISDN. Rather, the twisted copper pair is the same, whether or not ISDN is provided, and any extra costs are associated with switching capabilities, which are not recovered

through excess charges. Therefore, there is no reasonable justification for burdening basic rate ISDN with additional subsidy obligations.

Similarly, there appears to be little basis for assessing more than two SLCs on primary rate ISDN access. ITI believes that most local loop costs are labor-related, and that adding a copper pair should not come close to doubling the common line costs. Nonetheless, the Commission should not engage in a drawn-out cost investigation. Instead, as an equitable, rough justice solution, the Commission should assess one SLC per copper pair.⁹ The approach suggested by ITI, while likely over-recovering local loop costs, would assure that business customers (the purchasers of primary rate ISDN), are not subsidized by other users.¹⁰

ITI is opposed to any solution that assesses SLCs based on the number of channels derived from a twisted pair. It is not inconceivable that the next generation of digital transmission technology may achieve a greater number of channels from a single wire than have been achieved by ISDN. Such future technological breakthroughs -- as with ISDN-- should not be penalized by a rigid application of SLC rules that were intended to be applied to previous -- less efficient -- technologies. Therefore, the only sound policy, given impending technologies, is for the Commission to assess SLCs on a technology-indifferent and technology-neutral basis; i.e., on a per-facility or per-copper wire basis.

⁹ Another option proposed by the Commission would "charge SLCs based on the ratio of average LEC cost of providing a derived channel service, including line or trunk cards, to the average LEC cost of providing an ordinary local loop or T-1 facility." Notice, Para. 27. ITI does not believe that this is desirable. Adoption of this approach would require significant expenditure of resources to conduct the necessary price studies and, pending completion of those studies, would result in continued uncertainty in the ISDN market.

¹⁰ As the Commission recognizes, "applying SLCs based on the number of copper pairs used by a customer is not feasible if the customer's local loop is provided over coaxial cable or fiber." Notice, Para. 25. In such case, ITI proposes that the SLC be applied "as if" the service were being deployed over copper wiring. Thus, a PRI customer would pay 1 SLC for every two channels; a BRI customer would pay one SLC for every 24 channels.

VI. Conclusion

ITI recognizes that, to the extent ISDN is provided on an intrastate basis, prices are within the jurisdiction of the state regulatory authorities. However, ISDN is still not available in many parts of the country, and, where it is, state ISDN tariffs often are priced well above costs. [See attached chart of representative ISDN tariffs for each major LEC.] Therefore, ITI will continue to work with LECs, interexchange providers, PC user groups, small businesses, and other consumer groups and regulators to reduce ISDN rates and to make it easily available throughout the United States.

Nevertheless, if the Commission agrees with ITI's analysis that cost-based pricing of ISDN services is in the public interest, then the FCC should also adopt a more proactive leadership role in fostering the deployment and use of ISDN. To do so would be fully within its mandate under Section 7 of the Communications Act "to encourage the provision of new technologies and services to the public."

Respectfully submitted,

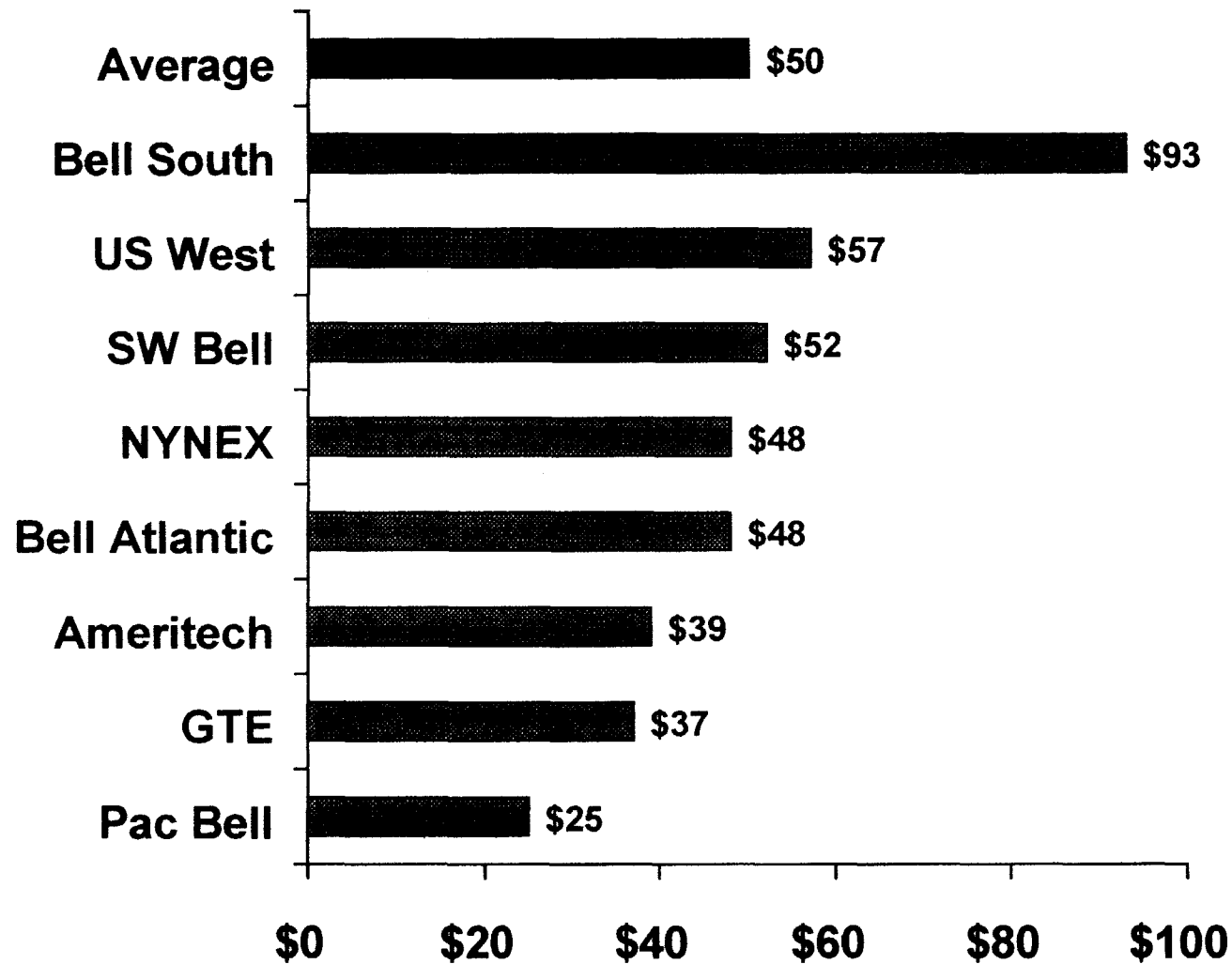


Rhett B. Dawson
President
Information Technology Industry Council

Date: June 29, 1995

ISDN Pricing

Average Monthly Charge Where Tariffs Exist for a Business BRI Line



Sources: Published Tariffs summarized by LEC region
Business BRI line configured for ProShare Video System
Metered usage charges not included

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